

UNITED COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

JUNE 30, 2006

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United Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2005 Election)		
Cheri Johnsen	President	2005
Peggy Soderstrum	Vice President	2006
Janis Hansen	Board Member	2006
Pamela Clemons	Board Member	2005
Kathy Toms	Board Member	2007

Board of Education  
(After September 2005 Election)

Janis Hansen	President	2006
Kathy Toms	Vice President	2007
Peggy Soderstrum	Board Member	2006
Keven Arrowsmith	Board Member	2008
Matt Swanson	Board Member	2008

School Officials

Dr. Michele Schleuning	Superintendent	2006
Shelly Carter	Board Secretary/ Treasurer	2006
Ahlers & Cooney, P.C.	Attorney	2006

**NOLTE, CORNMAN & JOHNSON P.C.**  
**Certified Public Accountants**  
**(a professional corporation)**  
117 West 3rd Street North, Newton, Iowa 50208-3040  
Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the  
United Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the United Community School District, Boone, Iowa as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of United Community School District at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

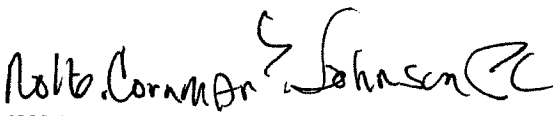
In accordance with Government Auditing Standards, we have also issued our report dated August 11, 2006 on our consideration of United Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 32 through 33 are not required parts of the basic financial statements, but are supplementary

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information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise United Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 2, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
NOLTE, CORNMAN & JOHNSON, P.C.

August 11, 2006

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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United Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2006 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$3,939,384 in fiscal 2005 to \$4,077,509 in fiscal 2006, while General Fund expenditures decreased from \$3,816,658 in fiscal 2005 to \$3,796,940 in fiscal 2006. This resulted in an increase in the District's General Fund balance from \$1,083,674 in fiscal 2005 to a balance of \$1,364,243 in fiscal 2006, a 25.9% increase from the prior year.
- The increase in General Fund revenues was attributable to an increase in state and federal sources in fiscal 2006. The decrease in expenditures was due primarily to a decrease in instruction and non-instruction functional areas.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of United Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report United Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which United Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

**Figure A-1**

***United Community School District Annual Financial Report***

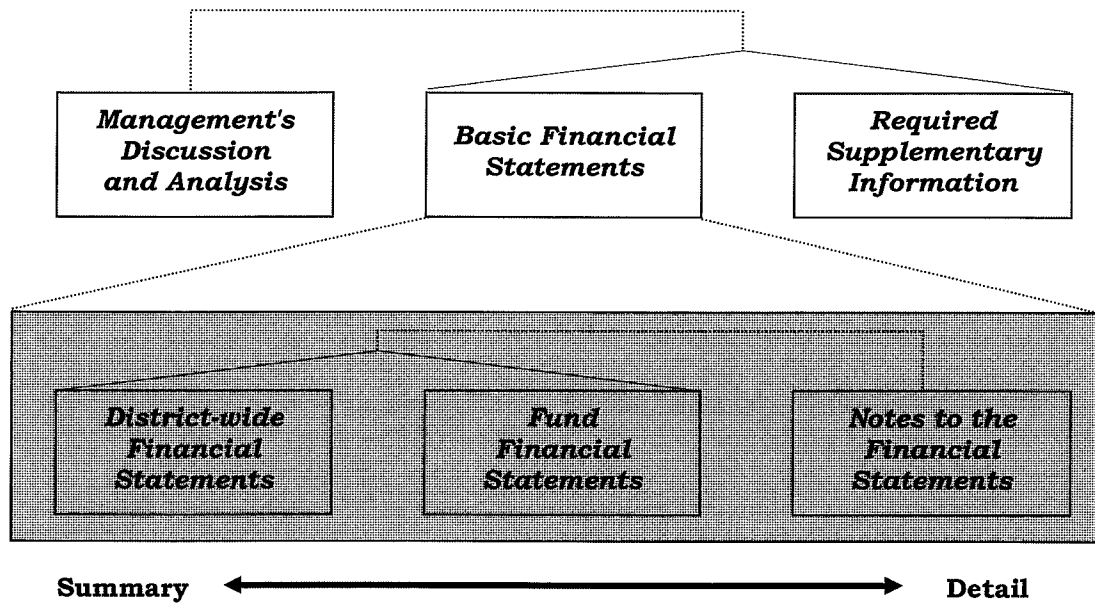


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

<b>Figure A-2</b> <b>Major Features of the Government-wide and Fund Financial Statements</b>			
	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of Net Assets</li> <li>• Statement of revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid



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## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

### Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds and Capital Projects Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide

financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has three enterprise funds, the School Nutrition Fund, the School Resale Fund and the Daycare Fund.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's total net assets at June 30, 2006 compared to June 30, 2005.

Figure A-3  
Condensed Statement of Net Assets

	Governmental Activities		Business-Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-06
Current and other assets	\$ 4,755,091	3,996,816	79,352	69,140	4,834,443	4,065,956	18.90%
Capital assets	1,612,669	1,492,538	57,192	56,886	1,669,861	1,549,424	7.77%
Total assets	6,367,760	5,489,354	136,544	126,026	6,504,304	5,615,380	15.83%
Long-term obligations	47,851	39,436	0	0	47,851	39,436	21.34%
Other liabilities	2,319,122	2,189,836	6,561	10,338	2,325,683	2,200,174	5.70%
Total liabilities	2,366,973	2,229,272	6,561	10,338	2,373,534	2,239,610	5.98%
Net assets:							
Invested in capital assets, net of related debt	1,612,669	1,492,538	57,192	56,886	1,669,861	1,549,424	7.77%
Restricted	980,815	610,274	0	0	980,815	610,274	60.72%
Unrestricted	1,407,303	1,157,270	72,791	58,802	1,480,094	1,216,072	21.71%
Total net assets	\$ 4,000,787	3,260,082	129,983	115,688	4,130,770	3,375,770	22.37%

The District's combined net assets increased by 22.37%, or \$755,000, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$370,541, or 60.72% over the prior year. The increase was primarily a result of the District's increase in fund balances in the Special Revenue, Physical Plant and Equipment Levy Fund, the Special Revenue, Management Levy Fund and The Capital Projects Fund.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased \$264,022, or 21.71%. This increase in unrestricted net assets was a result of the District's increase in the General Fund balance.

Figure A-4 shows the changes in net assets for the years ended June 30, 2006 and 2005.

Figure A-4 Changes of Net Assets							
	Governmental Activities		Business-Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-06
Revenues:							
Program revenues:							
Charges for services	\$ 1,067,979	1,076,473	144,978	111,163	1,212,957	1,187,636	2.13%
Operating grants and contributions and restricted interest	344,333	308,203	47,941	57,949	392,274	366,152	7.13%
General revenues:							
Property tax	2,003,891	1,914,513	0	0	2,003,891	1,914,513	4.67%
Local option sales and service tax	193,187	199,438	0	0	193,187	199,438	-3.13%
Unrestricted state grants	1,000,132	893,921	0	0	1,000,132	893,921	11.88%
Other	119,262	49,553	(1,278)	1,936	117,984	51,489	129.14%
Total revenues	4,728,784	4,442,101	191,641	171,048	4,920,425	4,613,149	6.66%
Program expenses:							
Governmental activities:							
Instructional	2,854,502	2,879,096	0	0	2,854,502	2,879,096	-0.85%
Support services	900,446	891,261	0	0	900,446	891,261	1.03%
Non-instructional programs	2,610	32,535	185,372	165,349	187,982	197,884	-5.00%
Other expenses	230,521	251,054	0	0	230,521	251,054	-8.18%
Total expenses	3,988,079	4,053,946	185,372	165,349	4,173,451	4,219,295	-1.09%
Change in net assets before capital contributions	740,705	388,155	6,269	5,699	746,974	393,854	89.66%
Capital Contributions	0	0	8,026	20,771	8,026	20,771	-61.36%
Change in net assets	740,705	388,155	14,295	26,470	755,000	414,625	82.09%
Net assets beginning of year	3,260,082	2,871,927	115,688	89,218	3,375,770	2,961,145	14.00%
Net assets end of year	\$ 4,000,787	3,260,082	129,983	115,688	4,130,770	3,375,770	22.37%

In fiscal 2006, property tax and unrestricted state grants account for 63.5% of the revenue from governmental activities while charges for services and operating grants and contributions account for 100% of the revenue from business type activities.

The District's total revenues were approximately \$4.92 million of which \$4.73 million was for governmental activities and \$.19 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 6.66% increase in revenues and a 1.09% decrease in expenses. The decrease in expenses was related to decreases in the instructional and non-instructional functions.

Changes in revenues will be as a result of changes in student participation, whether in the regular, special or extracurricular programs. The most significant change in revenues was due to the increase in property tax monies. Fluctuations in basic enrollment will significantly impact the state revenues, as well as property tax revenues, keeping in mind that neither source of funding

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will be ever fully realized with current law and funding structure as set by the legislature, and possible mid-year reduction of funding on the part of the state.

The most significant fluctuation in expenditure levels will be caused by increased salary and benefit obligations, in large part resulting from collective bargaining agreements. With a declining enrollment comes lesser ability to fund various programs required by the state and constant evaluation of staffing needs becomes a priority. Even with certain staff reductions there may still be an increase in expenditures due to the salary and benefit requirements.

The District makes a continual effort to be a good steward of public funds and maintains a philosophy of providing the best education possible, exploring every avenue available to fund the programs, while making certain to keep watch for services that could be merged with other programs. The District saw an overall greater increase in revenues than the increase in expenditures, demonstrating an increase in the financial position for the year.

### **Governmental Activities**

Revenues for governmental activities were \$4,728,784 and expenses were \$3,988,079. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5  
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 2,854,502	1,563,469
Support services	900,446	897,018
Non-instructional	2,610	2,610
Other expenses	230,521	112,670
Totals	<u>\$ 3,988,079</u>	<u>2,575,767</u>

- The cost financed by users of the District's programs was \$1,067,979.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$344,333.
- The net cost of governmental activities was financed with \$2,003,891 in property tax, \$193,187 in local option sales and services tax, \$1,000,132 in unrestricted state grants and \$61,083 in interest income.

### **Business-Type Activities**

Revenues of the District's business-type activities were \$191,641 and expenses were \$185,372. The District's business-type activities include the School Nutrition Fund, the School Resale, and the Daycare Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and interest income.

## **INDIVIDUAL FUND ANALYSIS**

As previously noted, the United Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$2,344,603, above last year's ending fund balances of \$1,723,909. However, the primary reason for the increase in combined fund balances in fiscal 2006 is due to the increase in the fund balances in all funds.

### **Governmental Fund Highlights**

- The District's growing General Fund financial position from is the product of many factors:
  - Increase in state aid grants during the year resulted in an increase in revenues.
  - The decrease in the instruction and non-instructional expenditures also helped to improve the General Fund financial position.
- The Management Fund balance increased from \$213,168 in fiscal 2005 to \$318,184 in fiscal 2006.
- The Capital Projects Fund balance increased from \$13,923 in fiscal 2005 to \$140,602 in fiscal 2006. This was due to the decrease in expenditures from fiscal year 2005 to fiscal year 2006.
- The Physical Plant and Equipment Levy Fund balance increased from \$402,935 in fiscal 2005 to \$510,879 in fiscal 2006. This increase was partially due to the increase in revenues from fiscal 2005 to fiscal 2006.
- The Student Activity Fund balance increased from \$10,209 to \$10,695. Along with the decrease in revenues was a decrease in expenditure which allowed the fund balance to increase.

### **Proprietary Fund Highlights**

The Proprietary Fund net assets increased from \$115,688 at June 30, 2005 to \$129,983 at June 30, 2006, representing an increase of 12.36%. For fiscal 2006, the District received capital contributions in the School Nutrition Fund of \$8,026.

## **BUDGETARY HIGHLIGHTS**

The District's revenues were \$368,316 more than budgeted revenues, a variance of 8.11%. The most significant variance resulted from the District receiving more in local sources than originally anticipated.

Total expenditures were less than budgeted, primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

At June 30, 2006, the District had invested \$1,669,861, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net

increase of 7.21% from last year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$245,441.

The original cost of the District's capital assets was \$4,082,876. Governmental funds account for \$3,990,221 with the remainder of \$92,655 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the building improvements category. The District's building improvements totaled \$632,506 at June 30, 2006, compared to \$527,297 reported at June 30, 2005. This increase resulted from the District making improvements to the building during fiscal 2006.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental Activities		Business-Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-06
Land	\$ 30,821	30,821	0	0	30,821	30,821	0.00%
Buildings	318,441	341,542	0	0	318,441	341,542	-7.25%
Land improvements	282,322	298,913	0	0	282,322	298,913	-5.88%
Building improvements	632,506	527,294	0	0	632,506	527,294	16.63%
Machinery and equipment	348,579	293,968	57,192	56,886	405,771	350,854	13.53%
Total	\$ 1,612,669	1,492,538	57,192	56,886	1,669,861	1,549,424	7.21%

### Long-Term Debt

At June 30, 2006, the District had \$47,851 in long-term debt outstanding. This represents an increase of 21.3% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

The District had outstanding early retirement payable of \$28,536 at June 30, 2006.

The District had outstanding compensated absences at June 30, 2006 of \$19,315.

Figure A-7  
Outstanding Long-Term Obligations

	Total School District		Total Change
	June 30,		June 30,
	2006	2005	2005-06
Early retirement	\$ 19,315	9,396	105.6%
Compensated absences	28,536	30,040	-5.0%
Totals	\$ 47,851	39,436	21.3%

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## **ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE**

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- A decrease of 8.2 in certified enrollment has taken the District from 362.5 in 2005-2006 to 354.3 in 2006-2007.
- The District is nearing the end of a whole grade sharing agreement with Boone Community School District in June 2009.
- The continuing phase out of the budget guarantee is also an issue the District is dealing with.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Shelly Carter, Board Secretary, United Community School District, 1284 U Avenue, Boone, Iowa, 50036.

## BASIC FINANCIAL STATEMENTS



UNITED COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2006

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and pooled investments	\$ 2,089,120	75,256	2,164,376
Receivables:			
Property tax:			
Delinquent	18,439	0	18,439
Succeeding year	2,050,976	0	2,050,976
Income surtax	91,366	0	91,366
Accounts	595	0	595
Due from other governments	504,595	0	504,595
Inventories	0	1,696	1,696
Prepaid expenses	0	2,400	2,400
Capital assets, net of accumulated depreciation (Note 4)	1,612,669	57,192	1,669,861
<b>Total Assets</b>	<b>6,367,760</b>	<b>136,544</b>	<b>6,504,304</b>
<b>Liabilities</b>			
Accounts payable	93,526	200	93,726
Salaries and benefits payable	174,620	5,752	180,372
Deferred revenue:			
Succeeding year property tax	2,050,976	0	2,050,976
Unearned revenue	0	609	609
Long-term liabilities (Note 5):			
Portion due within one year:			
Compensated absences	19,315	0	19,315
Early retirement payable	8,780	0	8,780
Portion due after one year:			
Early retirement payable	19,756	0	19,756
<b>Total Liabilities</b>	<b>2,366,973</b>	<b>6,561</b>	<b>2,373,534</b>
<b>Net Assets</b>			
Investment in capital assets, net of related debt	1,612,669	57,192	1,669,861
Restricted for:			
Salary improvement program	455	0	455
Capital projects	140,602	0	140,602
Management levy	318,184	0	318,184
Physical plant and equipment levy	510,879	0	510,879
Other special revenue purposes	10,695	0	10,695
Unrestricted	1,407,303	72,791	1,480,094
<b>Total Net Assets</b>	<b>\$ 4,000,787</b>	<b>129,983</b>	<b>4,130,770</b>

SEE NOTES TO FINANCIAL STATEMENTS.

UNITED COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2006

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities
Functions/Programs					Total
Governmental activities:					
Instruction:					
Regular instruction	\$ 2,272,996	797,469	203,152	(1,272,375)	0
Special instruction	472,265	237,634	21,580	(213,051)	0
Other instruction	109,241	31,163	35	(78,043)	0
	<u>2,854,502</u>	<u>1,066,266</u>	<u>224,767</u>	<u>(1,563,469)</u>	<u>0</u>
Support services:					
Student services	126,894	0	0	(126,894)	0
Instructional staff services	50,248	0	0	(50,248)	0
Administration services	336,471	0	0	(336,471)	0
Operation and maintenance of plant services	238,617	0	0	(238,617)	0
Transportation services	148,216	1,713	1,715	(144,788)	0
	<u>900,446</u>	<u>1,713</u>	<u>1,715</u>	<u>(897,018)</u>	<u>0</u>
Non-instructional programs:					
Food service operations	1,158	0	0	(1,158)	0
Community service operations	1,452	0	0	(1,452)	0
	<u>2,610</u>	<u>0</u>	<u>0</u>	<u>(2,610)</u>	<u>0</u>
Other expenditures:					
Facilities and acquisitions	25,097	0	0	(25,097)	0
AEA flowthrough	117,851	0	117,851	0	0
Depreciation(unallocated)*	87,573	0	0	(87,573)	0
	<u>230,521</u>	<u>0</u>	<u>117,851</u>	<u>(112,670)</u>	<u>0</u>
Total governmental activities	3,988,079	1,067,979	344,333	(2,575,767)	0
Business-Type activities:					
Non-instructional programs:					
Nutrition services	130,735	60,511	47,941	0	(22,283)
Resale activities	2,861	2,699	0	0	(162)
Daycare activities	51,776	81,768	0	0	29,992
Total business-type activities	<u>185,372</u>	<u>144,978</u>	<u>47,941</u>	<u>0</u>	<u>7,547</u>
Total	\$ 4,173,451	1,212,957	392,274	(2,575,767)	7,547
General Revenues and Transfers:					
Local tax for:					
General purposes			\$ 1,747,130	0	1,747,130
Capital outlay			256,761	0	256,761
Local option sales and services tax			193,187	0	193,187
Unrestricted state grants			1,000,132	0	1,000,132
Unrestricted investment earnings			61,083	2,694	63,777
Transfers			3,972	(3,972)	0
Other			54,207	0	54,207
Total general revenues			<u>3,316,472</u>	<u>(1,278)</u>	<u>3,315,194</u>
Changes in net assets before capital contributions			740,705	6,269	746,974
Capital contributions			<u>0</u>	<u>8,026</u>	<u>8,026</u>
Changes in net assets			740,705	14,295	755,000
Net assets beginning of year			<u>3,260,082</u>	<u>115,688</u>	<u>3,375,770</u>
Net assets end of year			<u>\$ 4,000,787</u>	<u>129,983</u>	<u>4,130,770</u>

\* This amount excludes the depreciation that is included in the direct expense of various programs.

SEE NOTES TO FINANCIAL STATEMENTS.

UNITED COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2006

	General	Student Activity	Management Levy	Physical Plant and Equipment Levy	Capital Projects	Total
<b>Assets</b>						
Cash and pooled investments	\$ 1,110,145	10,695	316,699	523,350	128,231	2,089,120
Receivables:						
Property tax:						
Delinquent	14,462	0	1,485	2,492	0	18,439
Succeeding year	1,629,130	0	140,000	281,846	0	2,050,976
Income surtax	91,366	0	0	0	0	91,366
Accounts	595	0	0	0	0	595
Due from other governments	461,415	0	0	0	43,180	504,595
<b>Total Assets</b>	<b>\$ 3,307,113</b>	<b>10,695</b>	<b>458,184</b>	<b>807,688</b>	<b>171,411</b>	<b>4,755,091</b>
<b>Liabilities and Fund Balances</b>						
Liabilities:						
Accounts payable	\$ 47,754	0	0	14,963	30,809	93,526
Salaries and benefits payable	174,620	0	0	0	0	174,620
Deferred revenue:						
Succeeding year property tax	1,629,130	0	140,000	281,846	0	2,050,976
Income surtax	91,366	0	0	0	0	91,366
Total liabilities	1,942,870	0	140,000	296,809	30,809	2,410,488
Fund balances:						
Reserved for:						
Salary improvement program	455	0	0	0	0	455
Unreserved	1,363,788	10,695	318,184	510,879	140,602	2,344,148
Total fund balances	1,364,243	10,695	318,184	510,879	140,602	2,344,603
<b>Total Liabilities and Fund Balances</b>	<b>\$ 3,307,113</b>	<b>10,695</b>	<b>458,184</b>	<b>807,688</b>	<b>171,411</b>	<b>4,755,091</b>

SEE NOTES TO FINANCIAL STATEMENTS.

UNITED COMMUNITY SCHOOL DISTRICT  
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2006

Total fund balances of governmental funds (page 16) \$ 2,344,603

*Amounts reported for governmental activities in the  
statement of net assets are different because:*

Capital assets used in governmental activities are not  
financial resources and, therefore, are not report as  
assets in in the governmental funds. 1,612,669

Accounts receivable income surtax, are not yet available  
to finance expenditures of the current period. 91,366

Long-term liabilities, including early retirement and  
compensated absences, are not due and payable in the  
current period and, therefore, are not reported as  
liabilities in the governmental funds. (47,851)

Net assets of governmental activites (page 14) \$ 4,000,787

SEE NOTES TO FINANCIAL STATEMENTS.

UNITED COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2006

	General	Student Activity	Manage- ment Levy	Physical Plant and Equipment Levy	Capital Projects	Total
<b>REVENUES:</b>						
Local sources:						
Local tax	\$ 1,587,338	0	151,497	256,761	193,187	2,188,783
Tuition	1,035,103	0	0	0	0	1,035,103
Other	115,395	2,324	9,237	14,348	3,746	145,050
State sources	1,241,834	0	64	108	11,708	1,253,714
Federal sources	90,716	0	0	0	0	90,716
Total revenues	4,070,386	2,324	160,798	271,217	208,641	4,713,366
<b>EXPENDITURES:</b>						
Current:						
Instruction:						
Regular instruction	2,209,505	0	23,541	0	0	2,233,046
Special instruction	467,737	0	0	0	0	467,737
Other instruction	106,314	1,838	0	0	0	108,152
	2,783,556	1,838	23,541	0	0	2,808,935
Support services:						
Student services	126,054	0	0	0	0	126,054
Instructional staff services	50,248	0	0	0	0	50,248
Administration services	340,579	0	10,443	0	0	351,022
Operation and maintenance of plant services	226,125	0	9,249	0	0	235,374
Transportation services	151,075	0	11,391	67,045	0	229,511
	894,081	0	31,083	67,045	0	992,209
Non-instructional programs:						
Food service operations	0	0	1,158	0	0	1,158
Community service operations	1,452	0	0	0	0	1,452
	1,452	0	1,158	0	0	2,610
Other expenditures:						
Facilities acquisitions	0	0	0	96,228	81,962	178,190
AEA flowthrough	117,851	0	0	0	0	117,851
	117,851	0	0	96,228	81,962	296,041
Total expenditures	3,796,940	1,838	55,782	163,273	81,962	4,099,795
Excess of revenues over expenditures	273,446	486	105,016	107,944	126,679	613,571
Other financing sources:						
Transfer in	3,972	0	0	0	0	3,972
Sale of equipment	3,151	0	0	0	0	3,151
Total other financing sources	7,123	0	0	0	0	7,123
Net change in fund balances	280,569	486	105,016	107,944	126,679	620,694
Fund balance beginning of year	1,083,674	10,209	213,168	402,935	13,923	1,723,909
Fund balance end of year	\$ 1,364,243	10,695	318,184	510,879	140,602	2,344,603

SEE NOTES TO FINANCIAL STATEMENTS.

UNITED COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 JUNE 30, 2006

Net change in fund balances - total governmental funds (page 18)	\$ 620,694
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*Amounts reported for governmental activities in the  
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 357,852	
Depreciation expense	<u>(237,721)</u>	120,131

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds.	8,295
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Early retirement	\$ 1,504	
Compensated absences	<u>(9,919)</u>	<u>(8,415)</u>

Changes in net assets of governmental activities (page 15)	<u>\$ 740,705</u>
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SEE NOTES TO FINANCIAL STATEMENTS.

UNITED COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2006

	School Nutrition	School Resale	Daycare	Total
<b>Assets</b>				
Cash and pooled investments	\$ 6,374	9,518	59,364	75,256
Inventories	1,696	0	0	1,696
Prepaid expenses	2,400	0	0	2,400
Capital assets, net of accumulated depreciation (Note 4)	57,192	0	0	57,192
<b>Total Assets</b>	<b>67,662</b>	<b>9,518</b>	<b>59,364</b>	<b>136,544</b>
<b>Liabilities</b>				
Accounts payable	0	0	200	200
Salaries and benefits payable	4,477	0	1,275	5,752
Unearned revenues	609	0	0	609
<b>Total Liabilities</b>	<b>5,086</b>	<b>0</b>	<b>1,475</b>	<b>6,561</b>
<b>Net Assets</b>				
Investment in capital assets, net of related debt	57,192	0	0	57,192
Unrestricted	5,384	9,518	57,889	72,791
<b>Total Net Assets</b>	<b>\$ 62,576</b>	<b>9,518</b>	<b>57,889</b>	<b>129,983</b>

SEE NOTES TO FINANCIAL STATEMENTS.

UNITED COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2006

	School Nutrition	School Resale	Daycare	Total
OPERATING REVENUE:				
Local sources:				
Charges for services	\$ 60,511	2,699	81,768	144,978
TOTAL OPERATING REVENUES	60,511	2,699	81,768	144,978
OPERATING EXPENSES:				
Non-instructional programs:				
Salaries	46,865	0	33,291	80,156
Benefits	17,970	0	12,581	30,551
Services	46	0	0	46
Supplies	58,134	2,861	5,904	66,899
Depreciation	7,720	0	0	7,720
TOTAL OPERATING EXPENSES	130,735	2,861	51,776	185,372
OPERATING INCOME (LOSS)	(70,224)	(162)	29,992	(40,394)
NON-OPERATING REVENUES:				
State sources	1,570	0	0	1,570
Federal sources	46,371	0	0	46,371
Interest income	495	364	1,835	2,694
TOTAL NON-OPERATING REVENUES	48,436	364	1,835	50,635
Change in net assets before other financing sources (uses)	(21,788)	202	31,827	10,241
Other financing sources (uses)				
Transfer out	0	0	(3,972)	(3,972)
Capital contributions	8,026	0	0	8,026
Total other financing sources (uses)	8,026	0	(3,972)	4,054
Change in net assets	(13,762)	202	27,855	14,295
Net assets beginning of year	76,338	9,316	30,034	115,688
Net assets end of year	\$ 62,576	9,518	57,889	129,983

SEE NOTES TO FINANCIAL STATEMENTS.



UNITED COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2006

	School Nutrition	School Resale	Daycare	Total
Cash flows from operating activities:				
Cash received from sale of lunches and breakfasts	\$ 60,169	2,699	0	62,868
Cash received from miscellaneous	381	0	81,768	82,149
Cash payments to employees for services	(65,657)	0	(51,404)	(117,061)
Cash payments to suppliers for goods or services	(52,508)	(2,861)	(5,766)	(61,135)
Net cash provided by (used in) operating activities	(57,615)	(162)	24,598	(33,179)
Cash flows from non-capital financing activities:				
Transfer to the General Fund	0	0	(3,972)	(3,972)
State grants received	1,570	0	0	1,570
Federal grants received	41,103	0	0	41,103
Net cash provided by (used in) non-capital financing activities	42,673	0	(3,972)	38,701
Cash flows from investing activities:				
Interest on investments	495	364	1,835	2,694
Net increase(decrease) in cash and cash equivalents	(14,447)	202	22,461	8,216
Cash and cash equivalents at beginning of year	20,821	9,316	36,903	67,040
Cash and cash equivalents at end of year	\$ 6,374	9,518	59,364	75,256
Reconciliation of operating income(loss) to net cash provided by (used in) operating activities:				
Operating income(loss)	\$ (70,224)	(162)	29,992	(40,394)
Adjustments to reconcile operating income(loss) to net cash provided by (used in) operating activities:				
Commodities consumed	5,268	0	0	5,268
Depreciation	7,720	0	0	7,720
Decrease in inventories	404	0	0	404
Increase in prepaid expenses	(2,400)	0	0	(2,400)
Increase in accounts payable	0	0	138	138
Increase in salaries and benefits payable	1,578	0	(5,532)	(3,954)
Increase in unearned revenue	39	0	0	39
Net cash provided by (used in) operating activities	\$ (57,615)	(162)	24,598	(33,179)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:				
Current assets:				
Cash and pooled investments	\$ 6,374	9,518	59,364	75,256

## NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2006, the District received Federal commodities valued at \$5,268.

During the year ended June 30, 2006, the School Nutrition Fund received capital contributions from the PPEL fund in the amount of \$8,026.

SEE NOTES TO FINANCIAL STATEMENTS.

UNITED COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

**(1) Summary of Significant Accounting Policies**

The United Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Boone, Iowa, and the predominate agricultural territory in Story and Boone Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

**A. Reporting Entity**

For financial reporting purposes, United Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The United Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Story and Boone Counties Assessors' Conference Board.

**B. Basis of Presentation**

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference

reported as net assets. Net assets are reported in three categories:

*Investment in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net asset* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Management Fund is utilized to account for the payment of property insurance, early retirement benefits and unemployment benefits.

The Physical Plant & Equipment Levy (PPEL) Fund is used to account for machinery and equipment expenditures as well as the improvements to capital facilities.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The Student Activity Fund is used to account for all the co-curricular and extra-curricular activities of student-run organizations or sponsored clubs.

The District's proprietary funds are the School Nutrition Fund, School Resale Fund, and the Daycare Fund. The Nutrition fund is used to account for the food service operations of the District. The School Resale Fund is used to account for the resale operations of the District. The Daycare fund is used to account for the daycare operations of the District.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 1,000
Buildings	1,000
Land improvements	1,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,000

Property, machinery and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-12 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used

to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenues - Unearned revenues are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary, School Nutrition Fund.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death, or retirement. A liability is recorded when incurred in the government-wide financial statements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2006. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

#### E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

### **(2) Cash and Pooled Investments**

The District's deposits at June 30, 2006 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint

investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2006, the District had investments in the Iowa Schools as follows:

	Amortized Cost
Diversified Portfolio	\$ 73

### (3) Transfers

The detail of transfers for the year ended June 30, 2006 is as follows:

Transfer to	Transfer from	Amount
General	Enterprise, Day Care	\$ 3,972

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

### (4) Capital Assets

Capital assets activity for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 30,821	0	0	30,821
Total capital assets not being depreciated	30,821	0	0	30,821
Capital assets being depreciated:				
Buildings	1,155,050	0	0	1,155,050
Land improvements	518,223	9,061	0	527,284
Building improvements	632,349	144,032	0	776,381
Machinery and equipment	1,295,926	204,759	0	1,500,685
Total capital assets being depreciated	3,601,548	357,852	0	3,959,400
Less accumulated depreciation for:				
Buildings	813,508	23,101	0	836,609
Land improvements	219,310	25,652	0	244,962
Building improvements	105,055	38,820	0	143,875
Machinery and equipment	1,001,958	150,148	0	1,152,106
Total accumulated depreciation	2,139,831	237,721	0	2,377,552
Total capital assets being depreciated, net	1,461,717	120,131	0	1,581,848
Governmental activities capital assets, net	\$ 1,492,538	120,131	0	1,612,669



	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 84,629	8,026	0	92,655
Less accumulated depreciation	27,743	7,720	0	35,463
Business-type activities capital assets, net	<u>\$ 56,886</u>	<u>306</u>	<u>0</u>	<u>57,192</u>

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 36,438
Special	4,528
Other	1,089
Support services:	
Instructional staff	840
Administration	4,379
Operation and maintenance of plant	2,536
Transportation	100,338
	<u>150,148</u>
Unallocated depreciation	<u>87,573</u>
Total governmental activities depreciation expense	<u>\$ 237,721</u>
Business-type activities:	
Food services	\$ 7,720
Total business-type activities depreciation expense	<u>\$ 7,720</u>

#### (5) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Compensated absences	\$ 9,396	19,315	9,396	19,315	19,315
Early Retirement	30,040	18,187	19,691	28,536	8,780
Total	<u>\$ 39,436</u>	<u>37,502</u>	<u>29,087</u>	<u>47,851</u>	<u>28,095</u>

#### Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and must have completed ten years of service as a full-time employee. Employees must complete an application, which is subject to approval by the Board of Education. Early retirement incentives for each eligible employee will be based on the employee salary schedule in effect the last year of the employee's employment with the District. The employee will receive 30 percent of the current year's salary less phase money,

supplemental pay or extended contract pay. Early retirement expenditures for the year ended June 30, 2006 totaled \$19,691.

**(6) Pension and Retirement Benefits**

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005 and 2004. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$77,273, \$76,278 and \$68,092 respectively, equal to the required contributions for each year.

**(7) Risk Management**

The District is a member in the Iowa School Employees Benefits Association (ISEBA), an Iowa Code Chapter 28E organization. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed in July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: medical, dental, vision and prescription drugs.

The District's contributions, which include deficit recovery assessments, to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2006 were \$160,226.

Members agree to continue membership in the pool for a period of not less than one full year. After such a period, a member who has given 30 days prior written notice may withdraw.

United Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(8) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$117,851 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

UNITED COMMUNITY SCHOOL DISTRICT  
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND  
CHANGES IN BALANCES -  
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS  
AND PROPRIETARY FUNDS  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2006

	Governmental Funds Actual	Proprietary Funds Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Revenues:						
Local sources	\$ 3,368,936	147,672	3,516,608	3,199,036	3,199,036	317,572
State sources	1,253,714	1,570	1,255,284	1,217,127	1,217,127	38,157
Federal sources	90,716	46,371	137,087	124,500	124,500	12,587
Total revenues	4,713,366	195,613	4,908,979	4,540,663	4,540,663	368,316
Expenditures:						
Instruction	2,808,935	0	2,808,935	3,046,639	3,046,639	237,704
Support services	992,209	0	992,209	1,109,000	1,109,000	116,791
Non-instructional programs	2,610	185,372	187,982	464,384	464,384	276,402
Other expenditures	296,041	0	296,041	620,852	620,852	324,811
Total expenditures	4,099,795	185,372	4,285,167	5,240,875	5,240,875	955,708
Excess(deficiency) of revenues over(under) expenditures	613,571	10,241	623,812	(700,212)	(700,212)	(1,324,024)
Other financing sources, net	7,123	4,054	11,177	0	0	(11,177)
Excess(deficiency) of revenues over(under) expenditures	620,694	14,295	634,989	(700,212)	(700,212)	(1,335,201)
Balance beginning of year	1,723,909	115,688	1,839,597	1,710,126	1,710,126	129,471
Balance end of year	\$ 2,344,603	129,983	2,474,586	1,009,914	1,009,914	1,464,672

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

UNITED COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparison for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis. Encumbrances are not recognized on the GAAP basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

OTHER SUPPLEMENTARY INFORMATION

UNITED COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
 YEAR ENDED JUNE 30, 2006

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Instrumental Music	\$ (349)	879	(2,254)	2,784
Interest	5,471	0	5,471	0
Pop	4,330	1,445	(2,136)	7,911
Elementary Library	757	0	757	0
Total	\$ 10,209	2,324	1,838	10,695

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

UNITED COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION  
 ALL GOVERNMENTAL FUND TYPES  
 FOR THE LAST FOUR YEARS

		Modified Accrual Basis			
		Years Ended June 30,			
		2006	2005	2004	2003
Revenues:					
Local sources:					
Local tax		\$ 2,188,783	2,113,951	2,161,356	2,160,465
Tuition		1,035,103	1,045,940	1,006,027	1,063,789
Other		145,050	75,636	48,305	85,986
State sources		1,253,714	1,115,796	990,837	1,190,517
Federal sources		90,716	86,328	94,537	83,730
Total		\$ 4,713,366	4,437,651	4,301,062	4,584,487
Expenditures:					
Current:					
Instruction:					
Regular instruction		\$ 2,233,046	2,449,747	2,377,029	2,467,629
Special instruction		467,737	430,068	543,172	522,108
Other instruction		108,152	1,960	22,003	6,699
Support services:					
Student services		126,054	49,587	48,855	53,800
Instructional staff services		50,248	43,795	72,729	67,305
Administration services		351,022	347,571	350,298	381,523
Operation and maintenance of plant services		235,374	215,282	226,266	199,724
Transportation services		229,511	178,676	224,964	213,128
Non-instructional programs					
Food service operations		1,158	31,503	23,617	31,079
Community service operations		1,452	1,032	4,116	1,770
Other expenditures:					
Facilities acquisitions		178,190	333,960	163,091	216,223
AEA flow-through		117,851	115,415	118,556	128,138
Total		\$ 4,099,795	4,198,596	4,174,696	4,289,126

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.



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Independent Auditor's Report on Internal Control over Financial Reporting and  
on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards

To the Board of Education of the  
United Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of United Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated August 11, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered United Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-06 is a material weakness.

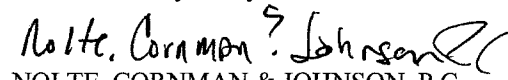
Compliance and Other Matters

As part of obtaining reasonable assurance about whether United Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of United Community School District and other parties to whom United Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of United Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

  
NOLTE, CORNMAN & JOHNSON, P.C.

August 11, 2006

UNITED COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2006

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

- I-A-06 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

- I-B-06 Student Activity Fund - We noted during our audit that the Student Activity Fund included a pop fund account.

Recommendation - The pop fund account may be more appropriately handled in a different fund.

Response - The pop account balances will also be removed.

Conclusion - Response accepted.

UNITED COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2006

Part II: Other Findings Related to Statutory Reporting

- II-A-06 Certified Budget - District expenditures for the year ended June 30, 2006, did not exceed the certified budget amounts in the functional areas.
- II-B-06 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-06 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- II-D-06 Business Transactions - No business transactions between the District and District officials or employees were noted.
- II-E-06 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-06 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-G-06 Certified Enrollment - We noted no variance in the basic enrollment data certified to the Department of Education.
- II-H-06 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- II-I-06 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.
- II-J-06 Corrective Transfer - We noted during our audit that there were classroom desks purchased from the Special Revenue, Physical Plant and Equipment Levy (PPEL) Fund. Chapter 423 and 298 of the Code of Iowa provides allowable expense for the PPEL Fund. The purchase of classroom desks does not appear to meet the criteria to be purchased from the PPEL Fund.

Recommendation - The District should make a corrective transfer from the General Fund to the PPEL Fund in the amount of \$920 for the classroom desks purchased. The District should review the code for each fund for allowable expenses.

Response - We will make the corrective transfer and watch those purchases closer in the future.

Conclusion - Response accepted.